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## ABSTRACT

Washington State assumes full responsibility for funding a basic education program for K-12 public schools. Full funding of basic education includes special education programs, transitional bilingual programs, remediation-assistance programs, and certain pupil transportation costs. This paper describes conditions in Washington State school finance as of April 1996. The paper presents a breakdown of state, federal, and local revenues; capital outlay and debt service; revenue distribution; limitations of taxation, expenditures, and revenue growth; and voter support of a Maintenance and Operations levy. Taxes comprise 96 percent of Washington's general fund revenues; the largest source of tax revenue is the retail sales and use tax. Approximately 95 percent of state general-fund revenues for K-12 schools are allocated for basic education. Federal revenue accounts for approximately 6 percent of total operating revenue in the state. One figure and two tables are included. (Contains seven references.) (LMI)

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## CURRENT CONDITIONS IN WASHINGTON STATE SCHOOL FINANCE

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## CURRENT CONDITIONS IN WASHINGTON STATE SCHOOL FINANCE

### BACKGROUND

Washington State has 296 fiscally independent school districts serving 916,000 students in grades K-12. The Constitution of the State of Washington mandates that the state assume a paramount duty for ample provision of education. The state Constitution also requires the legislature to provide for a general and uniform system of public schools. In response to a court ruling in 1977 (*Seattle v State of Washington*), the state assumed full responsibility for funding a basic education program for K-12 public schools. A later court decision in 1983 expanded the definition of full funding of basic education to include special education programs for the handicapped, transitional bilingual programs, remediation assistance programs, and certain specified pupil transportation costs.

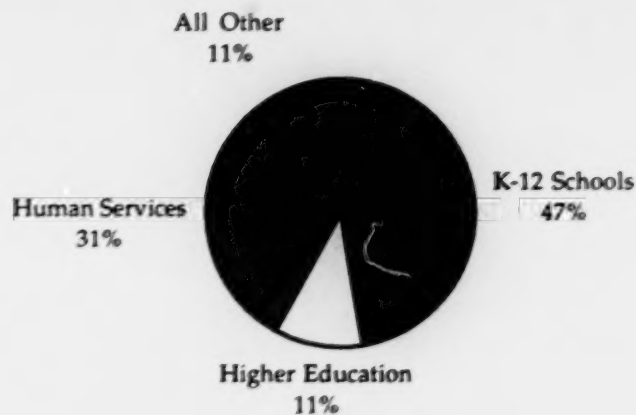
### REVENUES

Total state, local, and federal operating revenue for K-12 public schools in Washington state for the 1995-96 school year is \$5,378 million. In 1995-96, total per pupil operating revenue in Washington state from state, local, and federal sources is \$5,872. Washington public schools derive the majority of their revenues from state funds. Washington state is second only to Hawaii (a single school district state) in percentage contribution of operating revenue from state sources. State revenue comprises 79.3% of the total operating revenue, with local revenue at 14.2% and federal revenue at 6.4% of the total per pupil operating revenue.

#### *State revenue*

Taxes comprise 96% of Washington's general fund revenues. The largest source of tax revenue for the state's general fund is the retail sales and use tax. It is estimated that the sales and use taxes will generate \$9.2 billion for the 1995-97 biennium and comprise 52.4% of general fund tax revenue. The next most important source of state tax revenue is the business and occupation tax which is estimated to generate \$3.4 billion and comprise 19.4% of 95-97 state general fund revenue. State property tax is projected to generate \$2.2 billion, constituting 12.8% of state general fund revenues for 95-97. Washington has no state income tax. For the 1995-97 biennium, 47.3% of the state's general fund has been appropriated to K-12 education. The following graph displays the state's percentage allocations to K-12 education, higher education, human services, and all other programs for the 1995-97 biennium.

## Washington State Operating Budget Allocation Percentages



Approximately 95% of state general fund revenues for K-12 schools are allocated for basic education, including general apportionment and such programs and services as pupil transportation, special education, institutional education, transitional bilingual education, and the state's Learning Assistance Program. Table A below displays allocations for the 1995-97 biennium as amended in the state's 1996 Supplemental Budget and approved by the legislature on March 7, 1996.

**TABLE A**  
1995-97 State General Fund Budget for K-12 Education

| Program                                 | Allocation<br>(in thousands) | Percent of Total |
|-----------------------------------------|------------------------------|------------------|
| General Apportionment                   | 6,428,005                    | 71.11%           |
| Special Education                       | 846,604                      | 9.37%            |
| Pupil Transportation                    | 328,753                      | 3.64%            |
| School Food Services                    | 269,619                      | 2.98%            |
| Elementary/Secondary School Improvement | 222,376                      | 2.46%            |
| Compensation Adjustments                | 218,964                      | 2.42%            |
| Levy Equalization                       | 159,677                      | 1.77%            |
| Block Grants                            | 114,969                      | 1.27%            |
| Learning Assistance Program             | 114,627                      | 1.27%            |
| State Office and Statewide Programs     | 104,352                      | 1.15%            |
| Transitional Bilingual Instruction      | 54,810                       | 0.61%            |
| Education Reform                        | 48,466                       | 0.54%            |
| Institutional Education                 | 42,274                       | 0.47%            |
| All other programs                      | 85,554                       | 0.95%            |
| <b>TOTALS</b>                           | <b>9,039,050</b>             | <b>100.00%</b>   |

## Local revenue

The state legislature has given school districts the authority to levy local property taxes to fund programs and services which the state is not required to fund under its constitutional obligation. These levies are commonly called either "excess levies" (due to a statutory 1% limit on property taxes) or "special levies" (because they require voter approval). There are four types of special property tax levies: (1) maintenance and operations (M&O), one or two year levies used for day-to-day operations of the school district, (2) debt service, multi-year levies used to pay principal and interest on general obligation bonds, (3) capital projects, one to six year levies used to pay for school construction or remodeling, and (4) transportation vehicles, one or two year levies used to pay for school buses or other school transportation needs. The statewide assessment ratio for property is equal to 100% of market value. Table B provides information regarding certified school district levies in 1995.

**TABLE B**  
1995 School District Certified Levies by Fund

| Type of Levy     | Amount      | Percent of Total |
|------------------|-------------|------------------|
| General Fund     | 735,351,127 | 61.49%           |
| Debt Service     | 402,159,573 | 33.63%           |
| Transportation   | 9,434,683   | 0.79%            |
| Capital Projects | 49,028,370  | 4.10%            |

Additional sources of local education revenue are from the timber excise tax and from local non-tax sources. All timber growing on privately owned land is exempt from property taxes. The state collects an excise tax on timber at the time of harvesting and these revenues are distributed to the local taxing districts containing harvestable timber. In 1993-94 timber tax revenues for local districts were \$6.7 million. These timber tax revenues are applied towards the district's local special levy amounts, thereby lowering the special levy property tax rates in these districts. Local non-tax revenue comes primarily from investment earnings and food service fees. Non-tax revenue comprised 19.4% of total local revenue in 1993-94.

A subsequent section of this report discusses the specific state-mandated limitations on local education revenue. Additionally, the Special Topics section of this report contains a discussion of recent results in voter approval of maintenance and operation levies for K-12 education.

## Federal revenue

Federal revenue accounts for approximately 6% of total operating revenue in Washington state, ranking it 31st in the nation with regard to percentage contribution of operating revenue from federal sources in 1994-95. Approximately 30% of federal revenue is from the Elementary and Secondary School Improvement

(ESSIA) Chapter 1 and 2 monies, 28% is derived from the School Food Services program, 12% from the Supplemental Handicapped (IDEA, Part B) fund, 10% from Federal Impact Aid, and 6% from Federal Forest revenues.

### CAPITAL OUTLAY AND DEBT SERVICE

Prior to 1965, state revenues for capital construction were derived from bonds authorized by the legislature which were amortized from proceeds accruing from state tax sources. Since 1965, revenues have come from the Common School Construction Fund. Revenues from this fund are derived from the sale of renewable resources, mostly timber resources, from 1.3 million acres of state school lands set aside to fund education by the Enabling Act of 1889. Beginning in 1990, the state legislature added a state General Fund appropriation to the Common School Construction Fund. Initiative 601, the state's expenditure limitation provision effective July 1, 1995, establishes conditions under which excess state revenues can be deposited in an Education Construction Fund. Monies from this fund may be appropriated by the legislature for capital construction projects for higher education institutions and the K-12 school system.

Funding for capital projects is acquired through bond sales by local districts, investment earnings on the proceeds from these sales, and through a state matching program for school construction and modernization. The amount of state aid to which a district is entitled is determined according to a formula designed to provide the average district with 50% state aid based on the district's per pupil property wealth. Districts qualify for state aid on two bases. The first is need due to unhoused students, usually a result of enrollment increases. The second is an assurance that the district has sufficient local funding (through authorized bond issue or other capital revenue sources) to cover their share of the cost. A statutory requirement establishes a minimum bonded indebtedness or a combination of authorized bond issues and building fund levies equal to 2.5% of the assessed valuation in the school district at the time of allocation of state matching funds. There have been cases when this requirement has been waived due to atypically high property assessment valuation.

### REVENUE DISTRIBUTION

#### *Basic Aid Revenues*

An average basic education allocation per FTE student is determined by the legislature and applied to three types of calculations.

1. certificated instructional units for each 1000 FTE students, with variations by program (regular education, vocational education, skills centers) and by grade level (K-3 and 4-12).
2. certificated administrative units for each 1000 FTE students, with variations by program but not by grade.

3. classified units for each 1000 FTE students with no variations by program or grade.

Since the 1981-82 school year, the legislature has set an average salary and benefit level amount for each staff unit. Beginning in 1987-88 the legislature allowed districts to exceed those salary and benefit limitations by issuing separate contracts for additional time worked, additional responsibilities, or special incentives. Teacher salaries in 262 of the state's 296 districts are allocated using a statewide salary schedule. The remaining 34 districts are grandfathered with average salary levels that are between 0.07% and 6.3% higher than the statewide salary schedule.

The three types of basic education staff units are multiplied by the district's state-recognized basic education salary and benefits level for each type of unit to generate the district's allotment for basic education staff formula unit salaries. The state also provides specified per certificated staff unit allocations for non-employee related costs such as books, supplies, and utilities and an additional allocation per certificated instructional staff for substitute teachers.

Additional staff units are provided for "remote and necessary" schools, small school districts, and small high schools. Additional allocations are also provided if any school district with more than 250 students experiences an enrollment increase of more than five percent in any calendar month during the period of September through May.

#### *State Equalization Aid*

Local effort assistance is designed as a guaranteed tax base program for school districts having a special levy with property tax rates above the state average due to low property valuations. The state began making local effort assistance payments to school districts in 1989. A school district is eligible for local effort assistance if the tax rate which a district levies to collect an amount equal to 12% of its levy base is greater than the tax rate that would be necessary to raise 12% of the statewide levy base if the statewide average assessed valuation was used as the tax base. Local effort assistance provides the district with the difference between the amount raised by the statewide rate and the amount generated by the district's 12% rate. Districts with approved levy amounts which are less than the district's share of the 12% levy amount receive a pro rata portion of the maximum local effort assistance amount. In the 1995-97 biennium, equalization aid accounts for 1.77% of the total state operating budget for K-12 education.

#### *Categorical Programs*

As mentioned previously, the state of Washington is required to fund certain categorical programs as part of its responsibility for funding basic education. These programs are special education programs for the handicapped, transitional bilingual

programs, remediation assistance programs, and certain specified pupil transportation costs. These programs are briefly described below.

### Special Education

State allocations for special education are divided into 14 different categories of eligibility. Staff unit allocations for certificated instructional, certificated administrative and classified staff for each special education eligibility category are determined yearly by the legislature. Allocations for pupils identified as specific learning disabled are determined through the use of a base allocation level multiplied by a severity index. Because handicapped students are also reported on the basic education enrollment report, the percent of time the students spend in the regular education program is backed out of the basic education enrollment to avoid duplicate funding. In the 1995-97 biennium, the state legislature budgeted \$846.6 million for special education, comprising 9.37% of the state's budget for K-12 education.

### Remediation Assistance Programs

In 1979, the legislature enacted the Remediation Assistance Act to provide statewide assistance to students in grades two through six who were experiencing deficiencies in basic skills achievement (reading, mathematics, and language arts). In 1984 the program was expanded to include grades seven through nine as well. In 1987 the legislature replaced the Remediation Assistance Act with a broader range of programs options known as the Learning Assistance Program. This program provides funding to a school district based on the percentage of the district's students scoring in the bottom quartile on the state's 4th and 8th grade basic skills test. In the 1995-97 biennium, the state budgeted \$114.6 million for the Learning Assistance Program. In 1995-96, the state appropriated \$378 per eligible student.

### Transitional Bilingual Education

The Transitional Bilingual Education Program is intended to serve students who have a primary language other than English and whose English skills are sufficiently absent to impair learning in English. Districts are required to conduct initial assessments for eligibility and to reassess participating students yearly. Students can be enrolled in the program until they score above the 35th percentile in reading and language arts. In the 1995-97 biennium, the state budgeted \$54.8 million for the Transitional Bilingual Education Program. In 1995-96, the state appropriated \$378 per eligible student.

### Pupil Transportation

Each school district receives an allocation from the state which is intended to fully fund transportation by school buses or contracted transit for all eligible students who actually ride the bus. Field trips, extended day or activity bus runs, and

extracurricular transportation are excluded from the allocation calculations. The state also supports the purchase of new school buses and the rebuilding of existing buses by placing each bus on a depreciation schedule that generates an annual state payment to the district equal to some fraction of the value of the bus. These depreciation payments are designed to provide the district with sufficient funds to replace buses when necessary. In the 1995-97 biennium, the state allocated \$328.7 million for pupil transportation, or 3.64% of the total state operating budget for K-12 education.

## LIMITATIONS ON TAXATION, EXPENDITURES, AND REVENUE GROWTH

### *Initiative 601*

In November 1993, the voters of Washington State approved Initiative 601 which went into effect on July 1, 1995. Initiative 601 places a limit on state general fund expenditures, creates new reserve funds, and restricts state revenue increases. The annual growth of the state's general fund expenditures is limited to the average rate of inflation and population increase of the prior three fiscal years. All excess revenues are placed in an Emergency Reserve Fund. Appropriations from the Reserve Fund require a two-thirds vote of each house of the legislature. As mentioned in the above section on Capital Outlay, if the balance in the Reserve Fund exceeds five percent of biennial General Fund revenues, the excess monies are deposited into Education Construction Fund. Monies from this fund can be appropriated by a majority vote of the legislature for capital construction projects in higher education or K-12 systems. If approved by the voters and two-thirds of the legislature, monies from the Education Construction Fund may be used for other purposes.

Initiative 601 also requires a two-thirds vote of the legislature for any legislative action that increases state revenue or makes revenue-neutral tax shifts. If the legislative action exceeds the expenditure limit, voter approval is required. Under this initiative, agencies are prohibited from increasing fees at an annual rate that exceeds the same formula used to limit the state's general fund expenditures, unless prior legislative approval has been granted.

### *Regular Property Tax Limits*

The state Constitution of Washington limits the regular property tax to a maximum of 1% of market value. This limit applies to levy rates from the state school tax (limited to \$3.60 per \$1000 of assessed valuation) but special school district levies are exempt from this limitation and require voter approval. Legislative action limits regular property tax levies to an increase of not more than 6% of the highest levy of the three preceding years, exclusive of new construction.

## *Special Property Tax Limits*

Levies in excess of the 1% limit require voter approval. Voter approval consists of two components: validation and passage. Validation means that voter turnout must be equal to at least 40% of the previous general election total in the district. Passage is by a supermajority defined as 60% of the votes cast on the special levy proposal. In 1973 the voters approved a constitutional amendment which modified the validation requirement for maintenance and operations levies and vehicle transportation levies to at least 24% of the total votes cast in the previous general election. The 40% validation requirement still applies to special bond levies.

In 1977, the legislature approved a "levy lid" which sought to limit a school district's Maintenance and Operations (M&O) levy to 10% of each school district's state basic education allocation received in the prior year. This goal has never been reached and the legislature has amended the levy lid law ten times since 1977. Under current law, a district's levy lid is equal to its *levy base* times its *levy authority percentage* plus or minus its *transfers* and finally reduced by its *maximum local effort assistance*. The terms used in the description of the levy lid calculation are defined below.

The *levy base* includes most state and federal revenues from the prior school year plus the percentage increase in state basic aid between the prior and current school years, then divided by 55%. The *levy authority percentage* is equivalent to at least 24% of the levy base. Levy authority percentages could be reduced if the legislature increases state allocations in the form of levy reduction funds. Levy authority is reduced one dollar for each dollar of levy reduction funds and the levy authority percentage is then adjusted accordingly. *Transfers* protect taxpayers from subsidizing the education of students who attend school in a district other than their resident district in that the resident district's levy authority is reduced and the serving district's levy authority is increased in proportion to the number of student transfers. *Maximum local effort assistance* refers to the state's equalization formula and is described in the previous section on revenue distribution.

In 1993, several districts had voter-approved basic aid revenues which exceeded the levy lid and the legislature granted a temporary 4% increase in the amount districts could levy for collection in calendar years 1994 and 1995.

## **SPECIAL TOPIC**

### *Voter Support of Levies*

On the February 6, 1996 election, 207 of the state's 296 school districts ran a Maintenance and Operations levy. Of the 207 districts, 41 districts (or 19.8%) failed to reach the required 60% affirmative vote. These 41 districts represent 25% of K-12 students in Washington state. This contrasts with 1994 results when 269 districts attempted levies and only 10 (or 3.7%) failed to gain voter approval.

Districts who fail to reach the required approval can conduct a second and final election during the same levy election year. Many of these second elections are scheduled for the Spring of 1996. Consequently, at the time of this writing it is not known how many districts will successfully pass their proposed M&O levies. A preliminary analysis of the election results conducted by the Washington Association of School Administrators provides the following information about approval rates. This information is based on results from 135 of the 207 districts who submitted levies for voter approval.

- 59% of votes were cast at polling places, 42% were mail-in ballots
- 64% of all votes cast approved of the levy
- 75% of votes cast at polling places approved of the levy
- 51% of mail-in ballots approved of the levy

This preliminary analysis of 135 districts included 37 of the 41 districts which failed to pass the M&O levy. Of these 37 districts 32 (or 86%) received a M&O levy approval rate greater than a simple majority of 50% but less than the required 60% rate. Although reliance on revenues from M&O levies has decreased since 1977, these recent results add to current discussion underway in states with supermajority requirements regarding trends in voter support for local school taxes when a supermajority is required.

*Comments on this paper are appreciated and can be sent via email to: [mplecki@u.washington.edu](mailto:mplecki@u.washington.edu)*

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